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# Why Don't More Minorities Launch VC-Backed Businesses? Plus 4 Ways VCs Can Help

**Columbia Business School - the Eugene Lang Entrepreneurship Center**
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Only $4.2 billion out of $87.3 billion in venture capital went to Black and Latinx founders in 2020. GETTY

As a Latina founder turned investor, I was recently asked on a panel why minorities and women are not starting more VC-backed companies.

It's not that women and minorities are not starting businesses, in fact, quite the opposite: 40% of new businesses last year were started by women, and 47% of those were minority women. Latinos are the fastest growing group of entrepreneurs in the US. According to Stanford University, the number of Latino business owners grew 34% over the last 10 years compared to just 1% for all others. Additionally, there are 2.5+million U.S. Black-owned businesses.

Yet, the numbers fall apart when you look specifically at VC-backed businesses: Despite the focus on equity and diversity in the wake of #BlackLivesMatter and the #MeToo movement, funding for minorities and women actually *declined* last year. A small slice - 2.6% of venture dollars went to minorities and 2.2% went to women- that's $4.2 billion out of a $87.3 billion pie. According to

Project Diane, as of January 2021, only 93 Black and 58 Latinx women have ever raised over $1M. It is bittersweet that I belong to such an exclusive club of minority women founders.

The economic opportunity is there for the taking. Underestimated and diverse founders are undervalued assets: VC misses out on $4 trillion by not investing in diverse founders. So what can the venture capital industry do to diversify venture? Here are 4 specific initiatives that can help:



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**1) Representation on both sides of the table is important**

Often when I speak to diverse founders, they mention I am the only Latina VC they have met (not that surprising considering VC investors are 90% male, and 72% white). They immediately feel at ease—they can focus on pitching their business instead of feeling they have to overcome bias and pre-perceptions, which impacts their delivery.

As part of a diverse community, diverse investors can tap into diverse networks, much like those that went to Stanford tend to know more people from Stanford. Without diverse investors, a firm may never meet the most talented diverse founders and overlook underestimated founders that have the ability to build huge businesses. For example, I am a member of VC Familia, (a network of Latinx VCs), and Transact (a network for women and diverse VCs) where we often share deal flow from diverse founders. In addition, I volunteer my time to support Black founders through Betaworks' Black Ambition Program.

Diverse investors have the experience and networks that diverse founders particularly value. Suzanne Guaron of Goldman Sachs recently noted: "Founders are increasingly selective and strategic in their investor selection. Building remarkable businesses, these founders are seeing growing competition to participate in their rounds." Successful founders are keenly aware of the value of a diversified cap table and the disruptive insights and transformational connections it can unlock. It has been proven that a diversity of perspectives doesn't just make things fair, it leads to better business outcomes. In order to remain competitive, VC firms must make a conscious effort to hire diverse decision-makers in their own firms, and support emerging diverse fund managers.

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## 2) Don't hide behind the numbers

What doesn't get measured doesn't get done, but what and how you measure is just as important. Often, funds have set metrics by which they assess the quality startups, but these may create unintentional biases. For example, using the amount of "friends and family" funding a company is able to raise as a metric of traction may not be the right for minority founders. Understanding that there is a wealth gap, founders of color may not have the network of wealthy friends and family to raise funding from, but investing in them does not mean lowering the bar; it means you are identifying an underfunded opportunity.

In the same vein, tracking the number of diverse-founder companies a fund is looking at may just be a vanity metric. Funds should also look at engagement metrics and ask themselves: Are we giving diverse founders a fair shake? Is our team spending the same amount of time and care reviewing their businesses?

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### 3) Acknowledge that the entrepreneurial journey has systemic hurdles for diverse founders

The personal economics of starting a VC-backed business is daunting. It requires you to sustain yourself for years before being able to cash out. If you beat the odds and your startup succeeds in raising multiple rounds, you still have very little cash. With companies staying private longer, you're looking at 7-10 yrs with no liquidity to pay off student loans, pay down debt, provide for your family, etc. This is particularly problematic for minorities, which historically tend to come from less affluent backgrounds. They may not have wealthy family members that can subsidize them, and may have families that depend on them. If it was more accepted to get some money out once the company hits certain milestones, that might make it more attractive to founders with the same skills and ambitions, but not the bank account, to support themselves and their families while they get a VC-backed startup off the ground.

### 4) There are plenty of opportunities for mentorship today, but what founders need most is funding

There has been a lot of talk and programs supporting diversity, yet the percentage of diverse founders that get funded is not growing significantly enough. Mentoring and counseling diverse founders is important and can help, but as these have proliferated, there are real questions about the long term impact. Nothing is as meaningful as actually putting dollars behind a diverse founder. Similarly, consider the outsize impact that supporting diverse emerging fund managers will have in building up the ecosystem.

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In spite of the challenges outlined above, I am optimistic about the diversification of the VC ecosystem. The lack of diversity in venture is actually a once-in-a-lifetime opportunity for outsized returns. Talking diversity is good, but for those that follow up the talk with real economic support, the financial rewards will be significant. The shift will not be quick, but the hard work of lasting change will pay off in generous upside, economically and socially.

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Rachel is the founder and General Partner of Red Bike Capital, a Latina- led seed-stage fund based in New York, investing in US-based Consumer Fintech, Ecommerce Infrastructure and Future of Consumer. She is co-founder of Scentbird, a Y Combinator-backed fragrance subscription that has raised over $28MM, and an active early investor and mentor at Y Combinator, 500 Startups and Techstars. Prior, she spent 15+ years building billion-dollar brands at Gillette, Estée Lauder, Bacardi, L'Oréal, Elizabeth Arden. She was named Entrepreneur Magazine's 100 Powerful Women of 2020 and is one of only 58 Latinas to have raised over $1M in venture funding. She is a Founding Member of Top Latinx in Tech, Executive Member Latino Corporate Directors Association, and President Hispanic Alumni Club Columbia Business School.

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